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GOVERNOR

STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
ROBERT W. SWANSON, ACTING DIRECTOR

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COMMISSIONER

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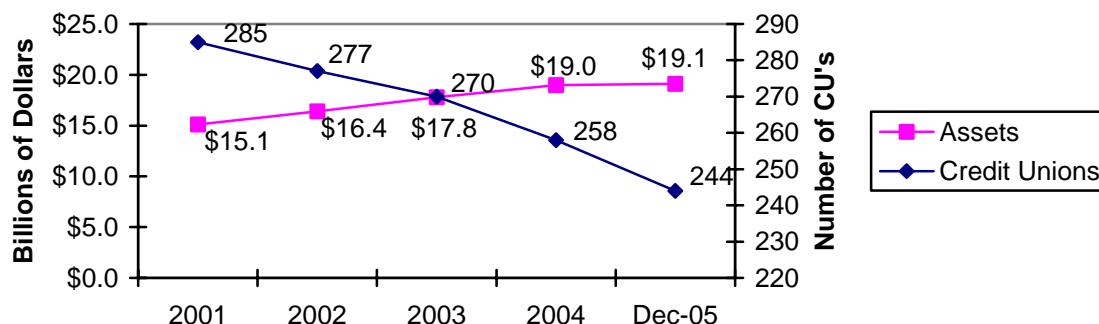
TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

SUBJECT: 2005 Fourth Quarter Financial Results

The Office of Financial and Insurance Services (OFIS) compiles call report information to monitor Michigan state-chartered credit unions, both individually, and in the aggregate. The purpose of this letter is to share some overall industry trends and highlight certain areas of particular concern based on the December 31, 2005 call report filings. The following information and analysis does not include CenCorp Credit Union.

Consolidation Continues

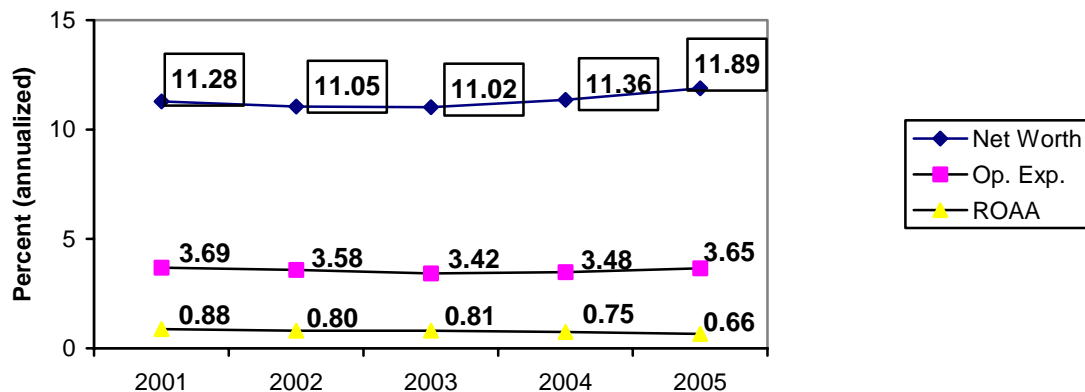
The number of Michigan state-chartered credit unions declined by 5 during the fourth quarter of 2005, bringing the total reduction to 14 for the year. This is the largest drop since 1999. Total loans grew about 7% although asset growth declined to 0.81% for the year, well below the 6.70% asset growth experienced during 2004.



The number of credit unions reporting a decline in assets greater than 5% decreased from 27 at year-end 2004 to 15 at December 31, 2005.

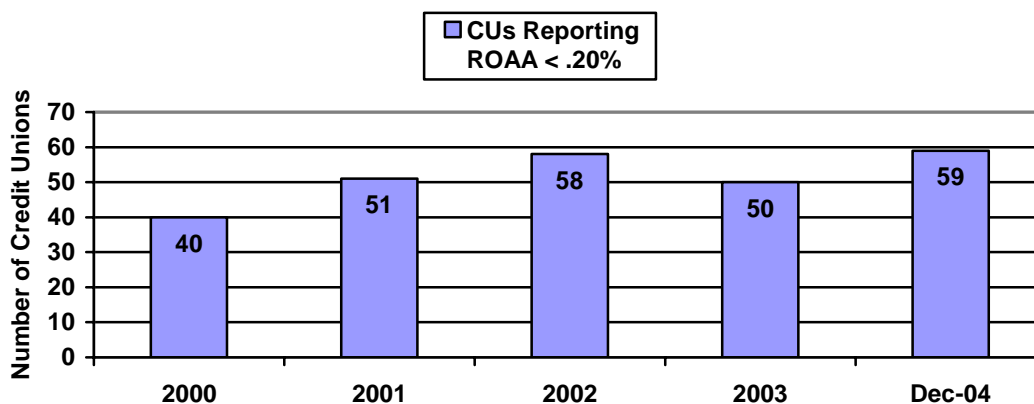
Net Worth Remains Strong, Despite Earnings Declines

Net worth increased from 11.36% at year-end 2004 to 11.89% at year-end 2005. The strong net worth growth can be attributed to minimal asset growth.



Consolidated gross income increased 47 basis points during 2005 primarily due to the increase in loans and the current rising rate environment, but was also impacted by some growth in other fee income. Despite the higher gross income, the average return on average assets (ROA) declined 9 basis points to .66% due to increased use of higher rate borrowed funds and the repricing of core funds at increased rates. Aggregate borrowed funds increased \$213 million during 2005 to 2.45% of average assets, nearly twice the level reported at year-end 2004. Appropriate ALM policies and procedures continue to be crucial to measure and monitor interest rate and liquidity risk as credit unions balance sheets increase in complexity. The ROA was also adversely impacted by a 17 basis point increase in operating expenses and a slight increase in the provision for loan losses.

While the average ROA was .66%, the number of credit unions reporting an ROA of less than .20% remains high at 59 for year-end 2005, an increase of 9 from year-end 2004.



Asset Quality Sound, But Increasing Credit Risk at Individual Institutions Evident

The aggregate delinquency and net charge-off ratios increased from 1.03% and 0.55% (respectively) at year-end 2004 to 1.17% and 0.61% at year-end 2005. The number of credit unions reporting adverse trends in these areas increased during 2005. Credit Unions reporting charge-offs greater than 1.5% of average loans doubled from 12 at year-end 2004 to 24 at year-end 2005.

Conclusion

The aggregate financial condition of Michigan state-chartered credit unions remains strong. Declining earnings and shifts in balance sheet structure are impacting the overall risk profile of institutions; however the aggregate capital position remains strong. Directors and management teams must monitor the financial condition of their credit union on an ongoing basis. Sound risk management includes timely identification of potential risks and adverse trends, and taking appropriate steps to ensure risks are properly managed.

I hope the information in this letter is helpful in making informed business decisions. Operating a financial institution safely and soundly requires diligence in risk identification, measurement, and management.

Sincerely,

Roger W. Little, Deputy Commissioner
Credit Union Division